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# Security Council

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## Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the financial statements of the United Nations Escrow (Iraq) Account for the biennium ended 31 December 2005.

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**Report of the Board of Auditors on the audit of the accounts of the United Nations Escrow (Iraq) Account established under the provisions of Security Council resolutions 986 (1995), 706 (1991), 778 (1992), 687 (1991), 1284 (1999) and 1483 (2003) for the biennium ended 31 December 2005**

# Contents


| | | Page |
|---|---|---|
| I. | Report of the Board of Auditors | 5 |
| | Executive summary | 5 |
| | A. Introduction | 7 |
| | 1. Previous recommendations not fully implemented | 7 |
| | 2. Recommendations | 8 |
| | 3. Background | 8 |
| | B. Detailed findings and recommendations | 10 |
| | 1. Financial position | 10 |
| | 2. United Nations System Accounting Standards | 13 |
| | 3. Accounts and financial reporting | 13 |
| | 4. Liabilities for end-of-service benefits | 17 |
| | 5. Write-off of losses | 17 |
| | 6. Ex gratia payments | 17 |
| | 7. United Nations Monitoring, Verification and Inspection Commission | 17 |
| | 8. Action taken by the Administration on the findings of the Independent Inquiry Committee | 19 |
| | 9. Cases of fraud and presumptive fraud | 20 |
| | C. Acknowledgement | 20 |
| | Annex<br>Summary of status of implementation of recommendation for the financial period ended 31 December 2003 | 21 |
| II. | Audit opinion | 22 |

31 March 2006

Dear Mr. Chairman,

In accordance with financial regulation 6.5, I have the honour to submit the accounts of the United Nations Escrow Account established pursuant to Security Council resolution 986 (1995), and pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 1284 (1999), 1483 (2003) and 1546 (2004), for the biennium 2004-2005 ending 31 December 2005, which I hereby approve. The financial statements have been completed and certified as correct by the Controller.

(*Signed*) Kofi A. **Annan**

Mr. Guillermo N. Carague
Chairman
United Nations Board of Auditors
New York

# I. Report of the Board of Auditors

*Executive summary*

The Board of Auditors has audited the operations of the United Nations Escrow Account established under the provisions of Security Council resolutions relating to Iraq for the biennium 2004-2005 ended 31 December 2005. The Board has also audited the financial statements of the United Nations Escrow Account (statements I, II and III) for the biennium ended 31 December 2005, taking into account the audit assurance obtained when the Board expressed an opinion on the 2004 financial statements of the escrow (Iraq) account.

The Board issued an unqualified opinion on the financial statements for the United Nations Escrow (Iraq) Account for the biennium ended 31 December 2005, as reflected in chapter II.

**Implementation of previous recommendations**

The Board has indicated in the annex to the present chapter, the summary status of implementation of recommendations for the period 1 January to 31 December 2003. The two recommendations previously reported were still under implementation by the Administration.

**Financial overview for the biennium ended 31 December 2005**

As at 31 December 2005, cash and term deposits and cash pool amounted to $1.56 billion. They adequately covered the $1.28 billion unliquidated obligations arising from approved contracts for current and prior periods. The total reserves and fund balances decreased considerably by $2.99 billion from $3.27 billion in 2003 to $28 million in 2005. The decrease was attributed to the transfer of funds to the Development Fund for Iraq. Shortfall of income over expenditure for the biennium was registered at $165.73 million, compared to the surplus of $286 million for the biennium 2002-2003.

Total income significantly decreased by 98 per cent from 2003 to 2005. The bulk of income in 2003 came from sale of Iraqi oil. That proportion was reduced owing primarily to the stoppage of oil sales on 20 March 2003. The closure of the programme in November 2003 and the transfer of funds to the Development Fund for Iraq during the biennium 2004-2005 had drastically reduced the funds of the programme. Cash pool, which is the major source of interest income for Iraq accounts, has dropped by $1.27 billion, or 88 per cent, from its balance of $1.44 billion in the biennium ending 2003 to $0.17 billion in the biennium ending 2005. Correspondingly, there was a decrease of 83 per cent in interest income from $999 million during the biennium 2002-2003 to $166 million during the biennium 2004-2005.

*Programme implementation*

The non-cancellation of the expired letters of credit hampered the complete liquidation of the programme and held up cash collaterals associated with each expired letter of credit.

*Revisit of mandate of the United Nations Monitoring, Verification and Inspection Commission*

As at 31 December 2005, a reserve of $114 million remained in the escrow account for the activities of the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC). During the biennium ended 31 December 2005, administrative expenditure amounted to $32 million. That may not be in keeping with the proper management of UNMOVIC resources considering that most of its goals and objectives have already been overtaken by events without its mandate being revisited pursuant to Security Council resolution 1546 (2004).

*Non-expendable property*

There were no accurate values of the non-expendable property of UNMOVIC reported as lost and missing during the Baghdad bombings and lootings.

**Recommendations**

The Board has made the following recommendations for the Administration to:

(a) Make representation to the Security Council and the Government of Iraq to finally resolve the issue on contracts with expired letters of credit;

(b) Continue to coordinate closely with the designated bank for the release of the cash collateral associated with each expired letter of credit in order to adjust the unliquidated obligations at the time the cash collateral is released by the bank;

(c) Initiate evaluation of the UNMOVIC mandate in the light of current events and again invite the Security Council to decide the final course of action to take; and

(d) Facilitate completion of the final inventory necessary to update the UNMOVIC records of non-expendable property lost or stolen.

## A. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations Escrow (Iraq) Account established under the provisions of Security Council resolutions relating to Iraq, in accordance with Security Council resolutions 986 (1995), 1483 (2003), and 1546 (2004), and pursuant to Council resolutions 687 (1991), 706 (1991), 778 (1992), and 1284 (1999). Security Council resolution 1483 (2003) calls for the termination of the Oil-for-Food Programme.

2. The audit was conducted in conformity with article VII of the United Nations Financial Regulations and Rules and the annex thereto, and the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. The present report is addressed to the Secretary-General who is invited to forward it to the President of the Security Council.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the unliquidated obligations recorded in the financial statements for the period from 1 January to 31 December 2005 had been incurred in pursuance of the provisions of resolution 1483 (2003), whether income and expenditures and other accounts were properly classified and recorded in accordance with the Financial Regulations and Rules, and whether the financial statements of the United Nations Escrow (Iraq) Account presented fairly the financial position as at 31 December 2005. The audit included a general review of the financial systems and tests of the adequacy of the existing controls, and a test examination of accounting records and other supporting evidence, to the extent the Board considered necessary to form an opinion on the financial statements.

4. The Board continued to report the results of the audit to the Administration in management letters containing detailed observations and recommendations. That practice allowed for ongoing dialogue with the Administration.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and recommendations were discussed with the Administration, whose views have been appropriately addressed in the present report.

### 1. Previous recommendations not fully implemented

*Period ended 31 December 2003*

6. The Board reviewed the measures taken by the Administration to implement the recommendations made in its report for the period ended 31 December 2003. The two recommendations contained in the report were under implementation. Details of the action taken and the comments of the Board are included in the relevant discussion within the present report.

## 2. Recommendations

7. **The Board's recommendations are that the Administration:**

(a) **Strongly urge the Security Council and the Government of Iraq to finally resolve the issue of contracts with expired letters of credit (para. 31 (a));**

(b) **Continue to coordinate closely with the designated bank for the release of the cash collateral associated with each expired letter of credit in order to adjust the unliquidated obligations at the time the cash collateral is released by the bank (para. 31 (b));**

(c) **Initiate the evaluation of the UNMOVIC mandate in the light of current events and again invite the Security Council to steer the final course of action to take (para. 46);**

(d) **Facilitate completion of the final inventory necessary to update UNMOVIC records of non-expendable property lost or stolen (para. 51).**

## 3. Background

8. In view of the termination of the Oil-for-Food Programme effective 21 November 2003, the United Nations Office of the Iraq Programme authorized the transfer of responsibility for the administration of its remaining activities to the Coalition Provisional Authority in Iraq pursuant to Security Council resolution 1483 (2003). The Coalition Provisional Authority ceased to exist when the occupation ended on 30 June 2004 and the interim Government of Iraq assumed full responsibility and authority.

9. The remaining obligations related to approved and funded contracts earlier concluded by the previous Government of Iraq and were covered by letters of credit. The letters of credit issued by the designated bank for the purpose of humanitarian supplies were irrevocable and non-transferable and were continuously administered by the United Nations beyond 21 November 2003. The United Nations, aside from keeping the collateral for the full value of the letters of credit, also retained responsibility for their administration until they were executed or expired.

*Humanitarian supplies*

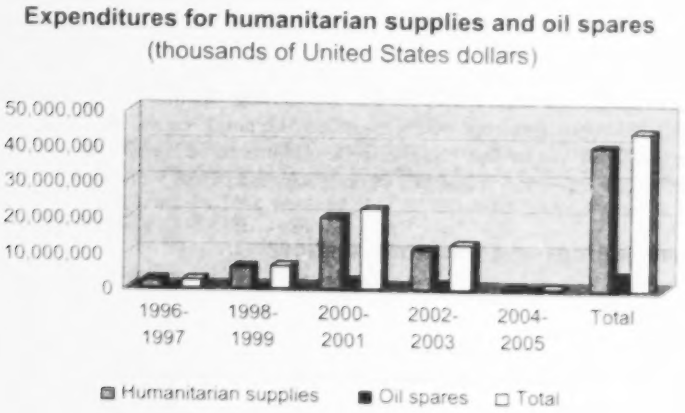
10. On 22 May 2003, by resolution 1483 (2003), the Security Council lifted the civilian sanctions against Iraq. In accordance with paragraph 16 of the resolution, the United Nations, in coordination with the Coalition Provisional Authority and the relevant Iraqi authorities, reviewed the relative utility of each contract still in the pipeline and in exceptional cases also included those unfunded contracts.

11. The Security Council in its resolution 1546 (2004) decided that in connection with the dissolution of the Coalition Provisional Authority, the Interim Government of Iraq and its successors shall assume the rights, responsibilities and obligations relating to the programme that were transferred to the Coalition Provisional Authority, including all operational responsibility for the programme and any obligations undertaken by the Coalition Provisional Authority in connection with such responsibility, and the responsibility for ensuring independently the authenticated confirmation that goods have been delivered.

12. As at 31 December 2005, the liquidation of the programme continued. All obligations relating to contracts that had not been prioritized in accordance with Security Council resolution 1483 (2003) had been closed, except for those where letters of credit had not lapsed. Obligations relating to contracts that had been prioritized remained as liabilities of the programme. The expiry dates of the letters of credit were extended until 2007. In his letters dated 8 August 2005, 17 October 2005 and 19 December 2005, the Secretary-General kept the Security Council informed of the arrangements for the liquidation of the outstanding letters of credit, and indicated that progress had been made on the amendments of the letters of credit by the relevant authorities of the Government of Iraq while little progress had been made in regard to the processing of authentication documents. The Security Council has taken note of the matter.

13. As at 9 October 2004, the Interim Government of Iraq has designated the Central Bank of Iraq as the institution responsible for the certification of the delivery of goods in Iraq. The Central Bank of Iraq worked with the buyers in Iraq who received the goods in order to prepare and forward such certification directly to the United Nations. The United Nations Treasury in turn reviewed the authentication documents before forwarding them to the designated bank for final payment. The Board reviewed on a sampling basis the completeness and validity of the authentication documents submitted to the United Nations Treasury by the Central Bank of Iraq for 2005 expenditures amounting to $280 million. During the biennium 2004-2005, the Oil-for-Food Programme spent $582 million on humanitarian supplies and oil spares. As at 31 December 2005, total expenditures reached $44 billion as shown in figure I below:

**Figure I**

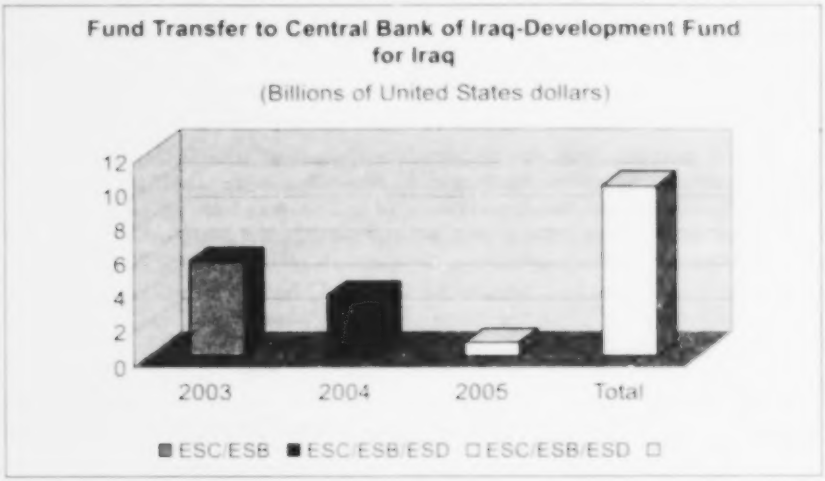



*Development Fund for Iraq*

14. The Development Fund for Iraq, to be held by the Central Bank of Iraq, was established pursuant to Security Council resolution 1483 (2003). As shown in figure II below, since the adoption of Security Council resolution 1483 (2003), a total amount of $10.04 billion has been transferred to the Development Fund of Iraq as at

31 December 2005, of which $4.44 billion was transferred during the biennium 2004-2005 and charged against the "Humanitarian activities in Iraq" account ($3.99 billion), Administrative and operational costs ($250 million) and UNMOVIC ($200 million).

**Figure II**




15. The International Advisory and Monitoring Board for Iraq is an audit oversight body for the Development Fund for Iraq. The principal role of the Board is to help ensure that the Development Fund for Iraq is used in a transparent manner for the benefit of the Iraqi people and export sales of petroleum, petroleum products and natural gas from Iraq are made consistent with prevailing international market best practices. The International Advisory and Monitoring Board for Iraq is composed of duly qualified representatives of the Secretary-General, of the Director-General of the Arab Fund for Social and Economic Development, of the Managing Director of the International Monetary Fund and of the President of the World Bank.

## B. Detailed findings and recommendations

### 1. Financial position

16. As reflected in statements I and II, the comparative figures of the major accounts of the United Nations Escrow Fund are presented in table 1.

Table 1
**Analysis of account balances**
(Thousands of United States dollars)

| Account | Biennium ended 2005 | Biennium ended 2003 | Increase/ decrease | Percentage |
|---|---|---|---|---|
| Total income | 255 759 | 13 449 195 | (13 193 436) | (98) |
| Total expenditures | 421 492 | 13 163 286 | (12 741 794) | (97) |
| Interest income | 166 805 | 999 427 | (832 622) | (83) |
| Humanitarian supplies and oil spares | 279 745 | 12 405 986 | (12 126 241) | (98) |
| Cash term and deposit | 1 389 722 | 9 571 648 | (8 181 926) | (85) |
| Cash pool | 171 529 | 1 440 971 | (1 269 442) | (88) |
| Unliquidated obligations | 1 279 729 | 7 772 071 | (6 492 342) | (84) |
| Reserves and fund balances | 277 265 | 3 265 376 | (2 988 111) | (92) |

17. Total income significantly decreased by 98 per cent from 2003 to 2005. The bulk of income in 2003 came from the sale of Iraqi oil. That proportion was reduced owing primarily to the stoppage of oil sales on 20 March 2003. The closure of the programme and the transfer of funds to the Development Fund for Iraq during the biennium 2004-2005 had drastically reduced the funds of the programme. The cash pool, which is the major source of interest income for Iraq accounts, has dropped by $1.27 billion, or 88 per cent, from its balance of $1.44 billion in the biennium ended 2003 to $0.17 billion in the biennium ended 2005. Correspondingly, interest income (in thousands of United States dollars) had decreased from $999,427 in the biennium ended 2003 to $166,805 at the end of the biennium in 2005.

18. Expenditures for the humanitarian supplies and oil spares were $12.40 billion in 2003 and $280 million only in 2005, or a significant decrease of $12.12 billion due to the termination of the programme in November 2003.

19. As at 31 December 2005, cash and term deposits and the cash pool amounted to $1.56 billion. They adequately covered the $1.28 billion unliquidated obligations arising from approved contracts for current and prior periods. The total reserves and fund balances decreased considerably by $2.99 billion from $3.27 billion in 2003 to $277 million in 2005. The decrease is attributed to the fund transfers made to the Development Fund for Iraq.

*Liquidation*

20. The 2.2 per cent operational and administrative liquidation budget for 2005-2007 amounted to $23.20 million, consisting of $20.84 million for non-staff costs and $2.36 million for staff costs. The non-staff costs of $20.84 million included personnel repatriation costs of $.29 million, building rental costs of $1.74 million, Independent Inquiry Committee investigation costs of $18.31 million, and external audit costs of $.50 million. The Office of Programme Planning, Budget and Accounts assumed the responsibility of completing the winding-up process, including the liquidation of advances by or reimbursement of expenditures to the implementing partners after the termination of the Oil-for-Food Programme on 21 November 2003. As at 31 December 2005, the outstanding advances to the Food and Agriculture Organization of the United Nations of $5 million (including accrued

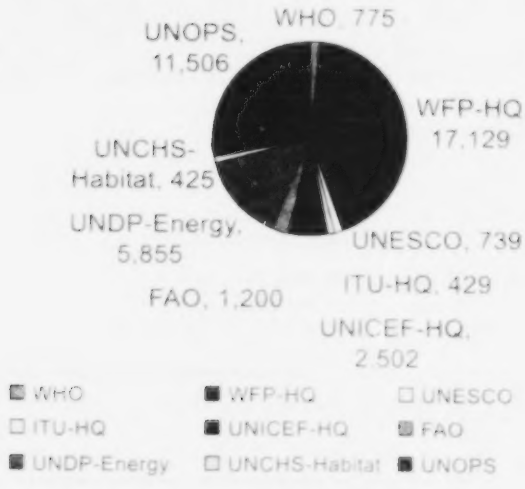
interest of $68,000) involved claim disputes with a third party and disclosed in note 11 to the financial statements as contingent liability.

21. Transactions for the year also included $40.56 million representing overpayment of certain implementation costs, which were billed and subsequently paid by the agencies listed below as a result of the Independent Inquiry Committee findings into the United Nations Oil-for-Food Programme. That amount formed part of the miscellaneous income of the Oil-for-Food Programme.

**Figure III**

**Inter-agency refund to Escrow as a result of the Independent Inquiry Committee report**

(Thousands of United States dollars)




22. Transfer of funds to other United Nations agencies charged from the reserves of the UNMOVIC escrow account amounting to $22.71 million was made as at 31 December 2005. Letters from the President of the Security Council dated 24 June 2005 (S/2005/407) and 9 November 2005 (S/2005/703) authorized the transfer of the amount of $20.257 million to the United Nations credited against the assessment issued in respect of the obligations of the Government of Iraq for the regular budget, peacekeeping and Tribunal activities and the Capital Master Plan of the Organization and $2.182 million plus €226,493 for the International Atomic Energy Commission shown in table 2 below.

Table 2

**Fund transfers to the United Nations agencies**

(Thousands of United States dollars)

| United Nations agency | Amount |
|---|---|
| Regular budget | 13 279 |
| Peacekeeping operations | 6 228 |
| International Tribunal for the former Yugoslavia | 400 |
| International Criminal Tribunal for Rwanda | 314 |
| Capital Master Plan | 35 |
| International Atomic Energy Agency | 2 456 |
| **Total** | **22 712** |

*After-sales service fees*

23. Security Council resolution 1483 (2003), paragraph 16, provided that the United Nations (Office of the Iraq Programme and the agencies), in coordination with the Coalition Provisional Authority and the relevant Iraq authorities should review the relative utility of each contract still in the pipeline and including also those unfunded contracts on an exceptional basis. Upon the termination of the programme, the Office of the Iraq Programme prioritized 3,060 contracts with an approximate value of $6.2 billion. During that prioritization exercise, contracts that had any after-sales service fees were identified by the Coalition Provisional Authority and the relevant authorities and all contracts identified were renegotiated by the agencies (WFP, WHO, UNICEF, UNDP, UNOPS, and others) and were reduced in value. As a result of those amended contracts, the corresponding letters of credit were also amended to reflect the change in value.

## 2. United Nations system accounting standards

24. The Board assessed the extent to which the financial statements of the United Nations Escrow Accounts for the biennium 2004-2005 ended 31 December 2005 conformed to the United Nations system accounting standards. The review indicated that the presentation of the financial statements was generally consistent with the standards.

## 3. Accounts and financial reporting

*Expired letters of credit*

25. As at 31 December 2005, the United Nations Treasury, using the designated bank's liability report, indicated the final number of amended letters of credit at 498 with an aggregate value of approximately $1.3 billion, as shown in table 3 below. Accordingly, the "cash collateral" associated with the letters of credit covering the prioritized contracts remained in the United Nations Iraq Account until the contracted goods were delivered in full and payments made to the suppliers. The validity of the letters of credit issued and outstanding was extended or new letters of credit issued subject to the amended agreements between the suppliers and the Interim Government of Iraq.

Table 3
**Bank liability report as at 31 December 2005**
(Thousands of United States dollars)

| *Expiry date* | *Number of letters of credit* | *Value* |
|---|---|---|
| 2002 | 1 | 97 |
| 2003 | 4 | 2 275 |
| 2004 | 208 | 165 461 |
| 2005 | 118 | 254 377 |
| 2006 | 160 | 650 602 |
| 2007 | 7 | 189 029 |
| **Total** | **498** | **1 261 841** |

26. The update made by the Secretary-General in his letter dated 19 December 2005, addressed to the President of the Security Council, indicated that the concerned authorities of the Government of Iraq provided the United Nations with 104 requests for amendment and reinstatement to the existing letters of credit, as a result of which shipment dates and validity dates were extended for certain letters of credit. After processing all amendment requests from the relevant government authorities, funding for the 498 letters of credit was retained in the United Nations Iraq account. The validity of the covering letters of credit of the above-mentioned contracts would be allowed to expire but the decision to terminate those contracts would be held in abeyance until after an internationally recognized representative of the Government of Iraq shall make its own determination as to the necessity of enforcing such contracts, pursuant to Security Council resolution 1483 (2003). By May 2006, the United Nations Treasury did not have any documentation to suggest that the Government of Iraq intended to terminate those contracts. The cancellation of expired letters of credit was continuously undertaken by the United Nations Treasury and reflected a declining trend as at 31 March 2006, as shown in table 4.

Table 4
**Status of letters of credit for the humanitarian supplies and oil spares**

| *Expiration period* | *31 July 2005* | *As reported in the letter of 19 December 2005* | *31 December 2005* | *31 March 2006* |
|---|---|---|---|---|
| 2004 | 249 | 223 | 213[a] | 100 |
| 2005 | 286 | 162 | 118 | 83 |
| 2006 | 12 | 137 | 160 | 242 |
| 2007 | 2 | 2 | 7 | 7 |
| **Total** | **549** | **524** | **498** | **432** |

[a] Includes 1 letter of credit originally expiring in December 2002, 2 letters of credit in September 2003 and 2 in December 2003.

27. Of the 498 letters of credit, 331, with an aggregate amount of $422.2 million, had expired as at 31 December 2005 (see table 5 below). Of the 331 letters of credit, 314 had no pending requests for extension. As the liability under a letter of credit automatically ceases to exist upon its expiration, the lack of extension should qualify them for outright cancellation.

Table 5
**Expired letters of credit as at 31 December 2005**
(Thousands of United States dollars)

| *Expiry year* | *Number of letters of credit* | *Value* |
|---|---|---|
| 2002 | 1 | 97 |
| 2003 | 4 | 2 275 |
| 2004 | 208 | 165 461 |
| 2005 | 118 | 254 377 |
| **Total** | **331** | **422 210** |

28. The non-cancellation of the expired letters of credit hampers the complete liquidation of the programme and holds up cash collaterals associated with each expired letter of credit.

29. The Administration explained that management of the letters of credit programme has been characterized at all stages by a high degree of uncertainty with regard to the validity of the related contracts, letters of credit and obligations. The experience of the Administration has shown that formal expiration dates are not good indicators of intentions to complete contracts within a specified period. The authorities in Iraq have requested extensions of expired letters of credit on multiple occasions, even months after the deadline of receipt of extensions. Accordingly, it would not be prudent to cancel the related unliquidated obligations and to return funds to the Development Fund for Iraq until a clear confirmation was received from the authorities in Iraq that no further requests for extensions would be forwarded.

30. The Security Council extended the validity and/or reinstatement and cancellation of those letters of credit, originally numbering 549 as at 31 July 2005 to 432 as at 31 March 2006. The members of the Security Council also took note of the timetable envisaged in the annex to the Secretary-General's letters of 17 October 2005 and 19 December 2005 that the extension of letters of credit were to be received by the United Nations Treasury up to 31 December 2005.

31. **The Board recommends that the Administration:**

**(a) strongly urge the Security Council and the Government of Iraq to finally resolve the issue of contracts with expired letters of credit; and**

**(b) continue to coordinate closely with the designated bank for the release of the cash collateral associated with each expired letter of credit in order to adjust the unliquidated obligations at the time the cash collateral is released by the bank.**

32. The Administration informed the Board that the Controller is in the process of finalizing a report to be sent by the Secretary-General to the President of the Security Council on the arrangements for terminating the operations relating to the letters of credit raised against the United Nations Iraq Account under Security Council resolution 1483 (2003). The Secretary-General would be sending an update to the President of the Security Council as at 31 May 2006.

*Unliquidated obligations*

33. The Board noted a variation of $16 million in the balances of unliquidated obligations in the escrow financial statements. The unliquidated obligations as at 31 December 2005 amounted to $1.277 billion, compared to the designated bank-generated report in the amount of $1.261 billion, or a difference of $16 million. The Board noted that the Office of Programme Planning, Budget and Accounts had conducted regular reconciliations of the unliquidated obligations balances among the designated bank's outstanding letters of credit and the miscellaneous obligations documents in IMIS and the United Nations Treasury. The latest reconciliation as at 31 December 2005 was conducted on 16 March 2006. There was a 54 per cent decrease of unreconciled unliquidated obligations balances from $35 million in 2004 to the present $16 million.

34. The difference was due mainly to reinstatements which were not immediately recorded by the designated bank and/or the fact that although the designated bank was authorized to reinstate the full values of the letters of credit as recorded in the books of the Administration, the designated bank reinstated only amounts necessary to pay obligations due to beneficiaries. Another reason was that, in instances where suppliers were charged with penalties for late shipments, the bank paid them net of penalties but the United Nations kept the original amount. Hence, the unliquidated obligations as recorded in IMIS included the penalties.

35. The Board noted the orderly custody of thousands of contracts for humanitarian supplies and oil spares, more particularly their electronic filing. That provided the assurance of the availability and ease of retrieval of supporting documents.

*Operating reserves*

*"Humanitarian activities in Iraq" account*

36. An operating reserve of $160 billion was established during the six-month period ended 30 June 2005 under the "humanitarian activities in Iraq" account. The reserve was to ensure that sufficient funds were available for the satisfactory resolution of all remaining issues relating to outstanding letters of credit. With the reduction in the number of outstanding letters of credit, the operating reserve was reduced to $126.7 billion as at 31 December 2005.

*"Administrative and operational costs" account*

37. An operating reserve of $48 million was established in 2004 under the "administrative and operational costs" account. The reserve was to meet compensation costs payable in respect of those Oil-for-Food Programme staff members who were injured or killed as a result of the bombing of the United Nations headquarters building in Baghdad on 19 August 2003, as well as the

expected costs of the Independent Inquiry Committee and the administrative costs of the Escrow Accounts until all aspects of the programme are completed.

38. During the period from 1 January to 31 December 2005, an amount of $37.2 million was disbursed to meet those costs, which consisted mainly of Independent Inquiry Committee costs of $23.9 million and full settlement of all costs related to the bombing of 19 August 2003. An additional reserve was established for $10.4 million that included Independent Inquiry Committee costs of $6.6 million, thereby resulting in an operating reserve of $21.1 million as at 31 December 2005. That reserve is to meet future costs chargeable to the "administrative and operational costs" account, including those relating to Independent Inquiry Committee and administrative costs.

## 4. Liabilities for end-of-service benefits

39. Staff members separated from the Organization were entitled to be paid for any unused vacation days that they may have accrued, up to a maximum of 60 days. The Organization's total liability for such unpaid accrued vacation compensation for staff working in the various activities related to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), and 1483 (2003) as of 31 December 2005 was estimated at $1.1 million.

40. Some staff members are entitled to repatriation grants and related expenditures of relocation upon their separation from the Organization based on the number of years of service. The Organization's total liability for such unpaid repatriation and relocation entitlement for staff working in the various activities related to the above-mentioned Security Council resolutions as of 31 December 2005 was estimated at $0.9 million. The Board noted that the operating reserves of $21 million established in 2005 included provisions for those liabilities.

## 5. Write-off of losses

41. In accordance with financial rule 106.8 (a), the Administration also provided the Board a schedule of cash and receivables written off during the biennium ended 31 December 2005. A total of $4,358 for receivables pertaining to the United Nations Escrow Account was written off. The amount consisted mainly of losses of unsold United Nations stamps of $3,540.

## 6. Ex gratia payments

42. In accordance with financial rule 105.12, the Administration informed the Board that there were ex gratia payments amounting to $214,151 during the biennium ended 31 December 2005. The payments consisted of medical expenses of four staff, two United Nations visitors and two workers who were injured during the bombing of the United Nations office in Baghdad in 2003.

## 7. United Nations Monitoring, Verification and Inspection Commission

*UNMOVIC mandate*

43. In paragraph 22 of its resolution 1546 (2004), the Security Council reaffirms its intention to revisit the mandates of UNMOVIC and the International Atomic Energy Agency (IAEA). The UNMOVIC assets as at 31 December 2005 included

$115 million in the cash pool. That represents the share in the United Nations Headquarters cash pool for UNMOVIC, comprising cash and term deposits of $17.89 million, short-term investments of $52.33 million, long-term investments of $43.83 million and accrued interest receivable of $0.72 million. The UNMOVIC assets on the cash pool represents 67 per cent of the total cash pool of the escrow account of $171.53 million. UNMOVIC had approximately $114 million total reserves and fund balances as at 31 December 2005, down from $353 million as at 31 December 2003. A total of $32 million administrative expenses were incurred for the biennium ended 31 December 2005, compared to $73 million for the biennium ended 31 December 2003. Also, an amount of $200 million was transferred to the Development Fund for Iraq and $22.7 million was used to settle the outstanding arrears of assessed contributions that the Government of Iraq had with the United Nations and the IAEA. The staffing table authorization dated 28 June 2005 indicated 67 positions for Professional and General Services.

44. In the report of the Secretary-General on mandating and delivering: analysis and recommendations to facilitate the review of mandates (A/60/733 and Corr.1), the Secretary-General indicated that as the "situation in Iraq evolves, a Security Council review of the UNMOVIC mandate may be warranted, including examination of whether and how the United Nations could utilize certain areas of the Commission's expertise such as its roster of trained technical experts".

45. Although the operational activities of UNMOVIC have diminished, administrative expenses still amounted to $32 million while the balance of reserves as at 31 December 2005 was $114 million. Without its mandates being revisited as required in resolutions 1483 (2003) and 1546 (2004), UNMOVIC may continue to incur administrative costs although most of its goals and objectives may have been overtaken by events.

46. **The Board recommends that the Administration initiate the evaluation of the UNMOVIC mandate in the light of current events and again invite the Security Council to steer the final course of action to be taken.**

47. The Administration has, however, pointed out in that connection that it regularly kept the Security Council informed of its programme activities. The Council has also been informed of the level of the reserve and of the possibility of reviewing the mandate.

*Deferred payable*

48. The other accounts payable of UNMOVIC funds or Fund ESE has a balance of $751 million. Of that amount, $579,268 represented deferred payable to the Government of Germany for the helicopter flights provided to UNSCOM (now UNMOVIC) in the early 1990s. The Administration commented that Office of Programme Planning, Budget and Accounts has reviewed the situation once again with UNMOVIC. It concluded that appropriate action should be taken once the Security Council has decided on the future mandate of UNMOVIC. The same observation was raised in the audit report of the escrow account for the financial period ended 31 December 2004.

*Non-expendable property*

49. The Board noted that the value of property lost and stolen during the bombing of the headquarters on 19 August 2003 and the reported lootings on 18 November 2003 and 23 August 2004 were not determined and identified. The notes to the financial statements disclosed that owing to the situation in Iraq, it was not possible for UNMOVIC to ascertain the value of non-expendable property in Iraq as at 31 December 2005.

50. The Administration informed the Board that all UNMOVIC assets at the Canal compound in Baghdad have been repositioned in a programme which involved the presence in Iraq of two UNMOVIC international staff. UNMOVIC equipment was stored in three locations, namely, the International Zone in Baghdad, the United Nations compound in Kuwait, and the UNMOVIC Cyprus field office. UNMOVIC international staff has commenced the final inventory of non-expendable property that would be completed by the end of August 2006.

51. **The Board recommends that UNMOVIC facilitate completion of the final inventory necessary to update its records of non-expendable property lost or stolen.**

## 8. Action taken by the Administration on the findings of the Independent Inquiry Committee

52. The Independent Inquiry Committee issued its fifth and final substantive report on 27 October 2005 on the alleged manipulation of the Oil-for-Food Programme. The report stated that the former Iraq Government had manipulated the programme to dispense contracts on the basis of political preference and to derive illicit payments from companies that obtained oil and humanitarian goods contracts. Four interim reports were issued and published by the Independent Inquiry Committee:

(a) Interim report dated 3 February 2005 dealing with the "initial procurement of United Nations contractors', Benon Sevan and oil allocation, internal programme audits and management of the programme's administrative account";

(b) Second interim report dated 29 March 2005 covering the "1998 procurement of the humanitarian goods inspection contract and other conduct of United Nations officials";

(c) Third interim report dated 8 August 2005 covering "the conduct of Benon Sevan and the conduct of Alexander Yakovlev"; and

(d) Report on the "management of the Oil-for-Food Programme dated 7 September 2005".

53. The work of the Independent Inquiry Committee was substantially completed during the year ended 31 December 2005. The Office of the Independent Inquiry Committee was officially disbanded in December 2005. However, the Committee's term was extended through 31 December 2006 to assist duly authorized law enforcement and regulatory agencies in cases that these agencies may be pursuing against companies, individuals and other entities resulting from the Committee's work. The Committee members have agreed to continue as an "Advisory Panel" on policy and operational issues that may arise. Costs of the Committee are paid for

from funds for administrative and operational costs of the programme. Expenditures during the 3- annum 2004-2005 ending 31 December 2005 amounted to approximately $36 million, of which $12 million pertained to 2004 and $23.4 million to 2005.

54. The plan of corrective action by the Office of Programme Planning, Budget and Accounts took into account the findings, conclusions and recommendations of the Independent Inquiry Committee as contained in the five reports which the Committee has issued. However, the Independent Inquiry Committee identified a number of positive findings related to controls and procedures in Office of Programme Planning, Budget and Accounts, inter alia, in the areas of management of the ESD (Programme Administrative Expenditure) Account and Treasury Operations. The Independent Inquiry Committee also drew attention to the fact that the procurement process was strongly tested by the need to quickly implement an urgent, complex and unprecedented programme.

55. The Administration also billed various United Nations agencies for the overpayment of certain implementation costs aggregating $40.56 million as a result of the Independent Inquiry Committee report. The concerned United Nations agencies paid the overpayment and the amount formed part of the miscellaneous income of the Oil-for-Food Programme (see para. 21 above).

56. The forensic investigation conducted in the aftermath of the Independent Inquiry Committee investigation has not yet been concluded, in view of which no impact on the financial statements was not yet known.

### 9. Cases of fraud and presumptive fraud

57. Notwithstanding the investigation by the Independent Inquiry Committee and any ongoing investigations by law enforcement officers of Member States, the Administration advised the Board that there were no known cases of fraud or presumptive fraud in the processing activities of the programme, nor in the operations of UNMOVIC, during the period under audit.

## C. Acknowledgment

58. The Board wishes to express its appreciation for the cooperation and assistance extended to the auditors by the Secretary-General, the Under-Secretary-General for Management, the Acting Executive Chairman, United Nations Monitoring, Verification and Inspection Commission and their officers and staff.

(Signed) Guillermo N. **Carague**
Chairman, Commission on Audit, Republic of the Philippines
Chairman, United Nations Board of Auditors
(Lead Auditor)

(Signed) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(Signed) Philippe **Seguin**
First President of the Court of Accounts of France

31 July 2006

Annex

## Summary of status of implementation of recommendations for the financial period ended 31 December 2003

| No. | Recommendation | Reference | Year first recommended | Status | Reference to paragraphs in present report |
|---|---|---|---|---|---|
| 1 | Transfer of expenditure from the Trust Fund for Peacekeeping Contingency Operations and Other Purposes to the Trust Fund for Peacekeeping Operations and the Trust Fund for Humanitarian Assistance, Relief and Rehabilitation | Table 2.1 | Paragraph 39, Board's report 2002 | | Paragraphs 23-25 |
| 2 | Enhance the accounting of contributions in the Mission Subaccount to reflect the receipt of contributions on the scheduled payment dates | Table 2.1 | Paragraph 41, Board's report 2002 | | Paragraphs 23-25 |
| Total | | | 2 | 2 | |

# II. Audit opinion

We have audited the accompanying financial statements of the United Nations Escrow (Iraq) Account comprising statements I to III and the supporting notes to the financial statements for the biennium ended 31 December 2005. These financial statements are the responsibility of the Secretary-General of the United Nations. Our responsibility is to express an opinion on the financial statements based on our audit and taking into account our opinion expressed on the financial statements for the period 1 January to 31 December 2004.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Secretary-General, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position as at 31 December 2005 and the results of its operations and its cash flows for the biennium then ended, in accordance with the United Nations system accounting standards.

Furthermore, in our opinion, the transactions of the United Nations Escrow (Iraq) Account that have come to our notice, or which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and legislative authority.

Without qualifying our audit opinions expressed above, we draw attention to note 12 to the financial statements, relative to the results of the investigation conducted by the Independent Inquiry Committee that was completed and its final report issued on 27 October 2005. The Administration noted the findings and was in the process of taking appropriate action on the recommendations of the Independent Inquiry Committee.

(*Signed*) Guillermo N. **Carague**
Chairman, Commission on Audit, Republic of the Philippines
(Chairman, United Nations Board of Auditors)
(Lead Auditor)

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa

(*Signed*) Philippe **Seguin**
First President of the Court of Accounts of France

*28 July 2006*

## Certification of the financial statements

1. The financial statements pursuant to Security Council resolution 986 (1995), and pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 1284 (1999), 1483 (2003) and 1546 (2004), for the period 1 January 2004 to 31 December 2005 have been prepared in accordance with financial rule 106.10.

2. The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarifications for the financial activities related to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1546 (2004) undertaken by the Organization during the period covered by these statements, for which the Secretary-General has administrative responsibility.

3. I certify that the appended financial statements of the United Nations Escrow Accounts, numbered I to III, are correct.

(*Signed*) Warren **Sach**
Assistant Secretary-General
Controller

31 March 2006

**Statement I**

## United Nations Escrow Accounts established under the provisions of Security Council resolutions relating to Iraq a/

Statement of income and expenditures and changes in reserves and fund balances
for the biennium 2004–2005 ending 31 December 2005

(Thousands of United States dollars)

| | Security Council resolutions 986 (1995) and 1483 (2003) | | Security Council resolutions 687 (1991), 706 (1991), 1284 (1999) c/ | Security Council resolutions 687 (1991), 706 (1991) d/ | | |
|---|---|---|---|---|---|---|
| | **Humanitarian activities in Iraq b/** | **Administrative and operational costs** | **Monitoring, verification and inspection** | **Other activities** | **Total 2005** | **Total 2003** |
| **Income** | | | | | | |
| Sale of Iraqi oil | | | | | | 13 548 112 |
| Allocation to United Nations Compensation Commission | | | | | | (3 423 852) |
| **Subtotal** | – | – | – | – | – | **10 124 260** |
| Funding from operating reserves e/ | | 37 242 | | | 37 242 | |
| Interest income | 150 096 | 3 329 | 13 380 | | 166 805 | 999 427 |
| Miscellaneous income | 43 365 f/ | 8 148 | 192 | | 51 705 | 6 976 |
| Currency exchange adjustments g/ | | 6 | 1 | | 7 | 2 318 532 |
| **Total income** | **193 461** | **50 725** | **11 573** | – | **255 759** | **13 449 195** |
| **Expenditure** | | | | | | |
| Purchase of humanitarian supplies h/ | 280 358 | | | | 280 358 | 11 139 750 |
| Purchase of spare parts i/ | 79 387 | | | | 79 387 | 1 286 216 |
| Pipeline tariff charges | | | | | | 289 714 |
| Operational expenses by Inter-Agencies | | 2 496 | | | 2 496 | 236 652 |
| Administrative expenses | | 27 712 j/ | 31 723 | 484 | 59 919 | 215 225 |
| Independent Inquiry Committee expenses k/ | | 35 854 | | | 35 854 | |
| Interest expense | | | | | | 15 709 |
| Currency exchange adjustments g/ | 43 478 | | | | 43 478 | |
| **Total expenditure** | **323 223** | **66 062** | **31 723** | **484** | **421 492** | **13 163 286** |
| **Excess (shortfall) of income over expenditure** | (129 762) | (15 337) | (20 150) | (484) | (165 733) | 285 909 |

| | Security Council resolutions 986 (1995) and 1483 (2003) | | Security Council resolutions 687 (1991), 706 (1991), 1284 (1999), g | Security Council resolutions 687 (1991), 706 (1991), g | | |
|---|---|---|---|---|---|---|
| | Humanitarian activities in Iraq b | Administrative and operational costs | Monitoring, verification and inspection | Other activities | Total 2005 | Total 2003 |
| Prior-period adjustments | | (1) | | (4) | (5) | |
| **Net excess (shortfall) of income over expenditure** | (129 762) | (15 338) | (20 156) | (488) | (165 738) | 285 908 |
| Savings on/or cancellation of prior-period obligations | 1 642 507 | 31 450 | 3 694 | 252 | 1 677 903 | 1 332 254 |
| Other adjustments to fund balances | | | | | | 4 |
| Transfers (to) from other organizations k | (3 990 322) | (250 000) | (200 000) | | (4 440 322) | (5 000 000) |
| Transfers to the United Nations and IAEA m | | | (22 712) | | (22 712) | |
| Transfer from operating reserves e | | (37 242) | | | (37 242) | |
| Reserves and fund balances, beginning of period | 2 613 358 | 298 303 | 353 096 | 619 | 3 265 376 | 5 247 209 |
| **Reserves and fund balances, end of period** | **135 781** | **27 173** | **113 928** | **383** | **277 265** | **3 265 376** |

a/ There were no activities relating to pipelines tariff charges and assets transfers and contributions during this period. Also see notes 3 and 4.

b/ Based on Security Council resolution 1483 (2003) amounts previously shown separately in respect of the "15 Governorates of Central and Southern Iraq", and "3 Governorates of Northern Iraq" have been combined under "Humanitarian activities in Iraq".

c/ Refers to the United Nations Monitoring Verification and Inspection Commission, see note 4.

d/ Refers to activities undertaken further to Security Council resolutions 687 (1991) and 706 (1991), see note 4.

e/ See note 7.

f/ Includes reimbursable implementation costs of $40,560,579 from agencies. See note 6.

g/ Represents currency exchange fluctuations between the euro and the United States dollar and other currencies.

h/ Expenditure incurred during the 2004-2005 biennium for humanitarian supplies relates to adjustments and reinstatements of contracts entered into in previous years. The figure includes unliquidated obligations of $75,291,447.

i/ Expenditure incurred during the 2004-2005 biennium for spare parts relates to adjustments and reinstatements of contracts entered into in previous years. The figure includes unliquidated obligations of $28,123,359.

j/ Includes $10,000,000 transferred to the Special Account for Compensation Awards and After-Service Health Insurance Payments (that is accounted for in volume I of the United Nations), in order to provide for medical and related costs arising from the 19 August 2003 bombing in Baghdad, Iraq.

k/ See note 5.

l/ Represents transfers to the Development Fund for Iraq held by the Central Bank of Iraq pursuant to Security Council resolution 1483 (2003). See note 10 (e).

m/ Represents transfers of $20,256,697 to the United Nations, and $2,182,168 plus €226,493 to the International Atomic Energy Agency for payment of outstanding assessed contributions of the Government of Iraq pursuant to the letters dated 24 June 2005 (S/2005/407) and 9 November 2005 (S/2005/703) from the President of the Security Council.

The accompanying notes are an integral part of the financial statements.

**Statement II**

## United Nations Escrow Accounts established under the provisions of Security Council resolutions relating to Iraq a/

Statement of assets, liabilities and reserves and fund balances
as at 31 December 2005

(Thousands of United States dollars)

| | Security Council resolutions 986 (1995) and 1483 (2003) | | Security Council resolutions 687 (1991), 706 (1991), 1284 (1999) | Security Council resolutions 687 (1991), 706 (1991) | | |
|---|---|---|---|---|---|---|
| | **Humanitarian activities in Iraq** | **Administrative and operational costs** | **Monitoring, verification and inspection** | **Other activities** | **Total 2005** | **Total 2003** |
| **Assets** | | | | | | |
| Cash and term deposits | 1 389 649 | 43 | 30 | - | 1 389 722 | 9 571 648 |
| Cash pool | 17 154 b | 39 610 c | 114 765 d | | 171 529 | 1 440 971 |
| Accounts receivable | | | | | | |
| Inter-fund balances receivable e | | | | 367 | 367 | 2 677 |
| Accounts receivable from Inter-Agencies f | 4 836 | 121 | 355 | - | 5 312 | 70 580 |
| Other accounts receivable | 2 074 | 203 | 411 | 28 | 2 716 | 11 373 |
| Inter-office transactions pending processing | - | - | - | - | - | 264 |
| Deferred charges | - | 15 | 25 | - | 40 | 3 249 |
| **Total assets** | **1 413 713** | **39 992** | **115 586** | **395** | **1 569 686** | **11 100 762** |
| **Liabilities** | | | | | | |
| Unliquidated obligations - current year | 103 739 g | 1 658 | 350 | 3 | 105 750 | 6 788 095 |
| Unliquidated obligations - prior years | 1 173 979 | - | - | - | 1 173 979 | 980 795 |
| Unliquidated obligations - future years | - | - | - | - | - | 3 181 |
| Accounts payable | | | | | | |
| Inter-fund balances payable e | 214 | 10 847 | 467 | - | 11 528 | 5 751 |
| Accounts payable to Inter-Agencies h | - | - | 90 | - | 90 | 52 887 |
| Other accounts payable | - | 313 | 751 | 9 | 1 073 | 4 592 |
| Inter-office transactions pending processing | - | 1 | - | - | 1 | 85 |
| **Total liabilities** | **1 277 932** | **12 819** | **1 658** | **12** | **1 292 421** | **7 835 386** |
| **Reserves and fund balances** | | | | | | |
| Operating reserves i | 126 660 | 21 132 | - | - | 147 792 | - |
| Cumulative surplus | 9 121 | 6 041 | 113 928 | 383 | 129 473 | 3 265 376 |
| **Total reserves and fund balances** | **135 781** | **27 173** | **113 928** | **383** | **277 265** | **3 265 376** |
| **Total liabilities and reserves and fund balances** | **1 413 713** | **39 992** | **115 586** | **395** | **1 569 686** | **11 100 762** |

a There were no activities relating to pipelines tariff charges and assets transfers and contributions during this period. Also see notes 3 and 4.

b Represents share of United Nations Headquarters cash pool for the "humanitarian activities in Iraq" comprising cash and term deposits $2,672,884, short-term investments $7,822,080 (market value $7,822,080), long-term investments $6,851,825 (market value $6,467,456), accrued interest receivable $107,017.

c Represents share of the United Nations Headquarters cash pool for "administrative and operational costs" cash and term deposits $6,172,011, short-term investments $18,062,122 (market value $18,062,122), long-term investments $15,128,951 (market value $14,934,131), accrued interest receivable $247,114.

d Represents share of the United Nations Headquarters cash pool for "monitoring, verification and inspection" cash and term deposits $17,882,625, short-term investments $52,332,726 (market value $52,332,726) long-term investments $43,834,234 (market value $43,269,768) and accrued interest receivable $715,982.

e See note 2 k (iv).

f Includes reimbursable implementation costs and funds advanced for the implementation of humanitarian activities.

g Unliquidated obligation incurred during the 2004-2005 biennium for humanitarian supplies and spare parts relates to adjustments and reinstatements of contracts entered into in previous years.

h Represents amounts payable to United Nations Inter-Agencies for expenditures in excess of amounts advanced.

i See note 7.

The accompanying notes are an integral part of the financial statements.

Statement III

## United Nations Escrow Accounts established under the provisions of Security Council resolutions relating to Iraq a

### Statement of cash flows
for the biennium 2004-2005 ending 31 December 2005

(Thousands of United States dollars)

| | Security Council resolutions 986 (1995) and 1483 (2003) | | Security Council resolutions 687 (1991), 706 (1991), 1284 (1999) | Security Council resolutions 687 (1991), 706 (1991) | | |
|---|---|---|---|---|---|---|
| | Humanitarian activities in Iraq | Administrative and operational costs | Monitoring, verification and inspection | Other activities | Total 2005 | Total 2003 |
| **Cash flows from operating activities** | | | | | | |
| Net excess (shortfall) of income over expenditure (Statement II) | (129 762) | (15 318) | (20 350) | (388) | (165 718) | 285 909 |
| (Increase) decrease in accounts receivable from sales of Iraqi oil | | | | | | 645 070 |
| (Increase) decrease in inter-fund balances receivable | 1 810 | | | 500 | 2 310 | 37 181 b |
| (Increase) decrease in accounts receivable from Inter-Agencies | 61 983 | 2 237 | 1 048 | | 65 268 | (5 632) |
| (Increase) decrease in other accounts receivable | 7 869 | 400 | 310 | (36) | 8 637 | 117 618 |
| (Increase) decrease in other assets | | 264 | | | 264 | (152) |
| (Increase) decrease in deferred charges | | 2 871 | 638 | | 3 209 | 3 205 |
| Increase (decrease) in unliquidated obligations | (6 435 811) | (51 444) | (4 837) | (250) | (6 492 342) | (5 431 239) |
| Increase (decrease) in frozen assets transfers and contributions payable | | | | | | (308 404) |
| Increase (decrease) in inter-fund accounts payable | 214 | 6 750 | (1 187) | | 5 777 | (246 724) b |
| Increase (decrease) in accounts payable to Inter-Agencies | (37 269) | (15 334) | (194) | | (52 797) | 35 933 |
| Increase (decrease) in other accounts payable | (2 796) | (719) | (8) | 4 | (3 519) | (1 251) |
| Increase (decrease) in accrued interest payable | | | | | | (137 906) |
| Increase (decrease) in other liabilities | | (84) | | | (84) | – |
| Less: Interest income | (150 096) | (5 329) | (11 380) | – | (166 805) | (999 427) |
| **Net cash from operating activities** | **(6 683 858)** | **(75 930)** | **(35 760)** | **(252)** | **(6 795 800)** | **(6 027 610)** |
| **Cash flows from investing activities** | | | | | | |
| (Increase) decrease in cash pool | 701 336 | 324 000 | 243 207 | – | 1 269 442 | 8 251 575 |
| Plus: Interest income | 150 096 | 5 329 | 11 380 | | 166 805 | 999 427 |
| **Net cash from investing activities** | **851 432** | **330 228** | **254 587** | **–** | **1 436 247** | **9 251 002** |
| **Cash flows from financing activities** | | | | | | |
| Savings on, or cancellation of prior-period obligations | 1 642 507 | 31 450 | 1 694 | 252 | 1 675 903 | 1 332 254 |
| Other adjustments to fund balances | | | | | | 4 |
| Transfers (to) from other organizations | (3 990 322) | (250 000) | (260 000) | | (4 440 322) | (5 600 000) |
| Transfers to the United Nations and IAEA | | – | (22 712) | | (22 712) | – |
| Transfer from operating reserves | | (37 242) | | | (37 242) | – |
| **Net cash from financing activities** | **(2 347 815)** | **(255 792)** | **(219 018)** | **252** | **(2 822 373)** | **(2 267 742)** |
| **Net increase (decrease) in cash and term deposits** | (9 180 241) | (1 494) | (191) | – | (8 181 926) | 955 650 |
| **Cash and term deposits, beginning of period** | **9 569 890** | **1 537** | **221** | **–** | **9 571 648** | **8 615 998** |
| **Cash and term deposits, end of period** | **1 389 649** | **43** | **30** | **–** | **1 389 722** | **9 571 648** |

a. There were no activities relating to pipelines tariff charges and assets transfers and contributions during this period. Also see notes 3 and 4.
b. Reclassified to conform to current presentation.

The accompanying notes are an integral part of the financial statements.

## Notes to the financial statements for the United Nations Escrow Account established under the provisions of Security Council resolutions relating to Iraq

### Note 1
### The United Nations and its activities

(a) The Charter of the United Nations was signed on 26 June 1945 and came into force on 24 October 1945. The Organization's primary objectives, to be implemented through its five major organs, are as follows:

(i) The maintenance of international peace and security;

(ii) The promotion of international economic, social progress and development programmes;

(iii) The universal observance of human rights;

(iv) The administration of international justice and law;

(v) The development of self-government for Trust Territories;

(b) The General Assembly focuses on a wide range of political, economic and social issues as well as the financial and administrative aspects of the Organization;

(c) Under the direction of the Security Council, the Organization has been involved in various aspects of peacekeeping and peacemaking, including efforts to resolve conflicts, restore democracy, promote disarmament, provide electoral assistance, facilitate post-conflict peacebuilding, engage in humanitarian activities to ensure survival of groups deprived of basic needs and overseeing the prosecution of persons responsible for serious violations of international humanitarian law;

(d) The Economic and Social Council plays a particular role in economic and social development, including a major oversight role in the efforts of other organizations of the United Nations system to address international economic, social and health problems;

(e) The International Court of Justice has jurisdiction over disputes between Member States brought before it for advisory opinions or binding resolutions;

(f) The Trusteeship Council completed its primary functions in 1994 with the termination of the Trusteeship Agreement for the last United Nations Trust Territory.

### Note 2
### Summary of significant accounting and financial reporting policies of the United Nations

(a) The accounts of the United Nations are maintained in accordance with the Financial Regulations and Rules of the United Nations as adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations and administrative instructions issued by the Under-Secretary-General for Management or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the Administrative Committee on Coordination, which has since been replaced by the United Nations

System Chief Executives Board for Coordination. The Organization follows international accounting standard 1, "presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by the United Nations System Chief Executives Board for Coordination as follows:

(i) Going concern, consistency, and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified;

(b) The Organization's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly, the Security Council or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature;

(c) The financial period of the Organization is a biennium and consists of two consecutive calendar years for all funds other than peacekeeping accounts, which are reported on a fiscal year basis covering the period from 1 July to 30 June;

(d) Generally, income, expenditure, assets, and liabilities are recognized on the accrual basis of accounting;

(e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollars translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the Organization's rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference;

(f) The Organization's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services;

(g) The cash flow summary statement is based on the indirect method of cash flows, as referred to in the United Nations system accounting standards;

(h) The Organization's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the United Nations System Chief Executives Board for Coordination;

(i) Income

(i) Voluntary contributions from Member States or other donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Voluntary contributions made in the form of services and supplies that are acceptable to the Secretary-General are credited to income or noted in the financial statements;

(ii) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;

(iii) Allocations from other funds represent monies appropriated or designated from one fund for transfer to and disbursement from another fund;

(iv) Income for services rendered includes amounts charged for salaries of staff members and other costs that are attributable to the provision of technical and administrative support to other organizations;

(v) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments, and investment income earned on the cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with operation of investments in the cash pool are allocated to participating funds. Interest income is available for allotment purposes on a six-monthly basis;

(vi) Net gains or losses on currency fluctuations other than for current year's obligations are accumulated on a six-monthly basis. Effective 1 January 2002, the net amount is recognized as income or expenditure every six months in the financial statements;

(vii) Miscellaneous income includes income from rental of premises, sale of used or surplus property, refunds of expenditures charged to prior periods, settlements of insurance claims, monies accepted for which no purpose was specified, and other sundry income;

(viii) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income as referred to in paragraph (l) (iii) below;

(j) Expenditure

(i) Expenditures are incurred against authorized appropriations or commitment authorities. Total expenditures reported include unliquidated

obligations and disbursements. Expenditures also include currency exchange adjustments arising from evaluation of current-period obligations.

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when the property is acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost.

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges, as referred to in paragraph (k) (vi) below.

(k) Assets

(i) Cash and term deposits represent funds in demand deposit accounts and interest-bearing bank deposits.

(ii) Investments include marketable securities and other negotiable instruments acquired by the Organization to produce income. Short-term investments are stated at lower of cost or market; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The market value of investments is disclosed in the footnotes to the financial statements.

(iii) Cash pools comprise participating funds' share of the cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the cash pools. The investments in the cash pools are similar in nature. Short-term investments are stated at lower of cost or market; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The share in cash pools is reported separately in each of the participating fund's statement, and its composition and the market value of its investments are disclosed in footnotes in the individual statements.

(iv) Inter-fund balances reflect transactions between funds, and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with other escrow accounts and with the United Nations General Fund. Inter-fund balances are settled periodically, dependent upon availability of cash resources.

(v) Provision for delays in collection of receivable balances is not made.

(vi) Deferred charges normally comprise expenditure items that are not properly chargeable in the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery.

(vii) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are

produced, at which time the budgetary accounts charged, and the advances settled;

(viii) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property, and leasehold improvements are not included in the assets of the Organization. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in notes to the financial statements;

(l) Liabilities and reserves and fund balances:

(i) Operating reserves are included in the totals for reserves and fund balances shown in the financial statements;

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(iii) Deferred income includes income received but not yet earned;

(iv) Commitments of the Organization relating to prior, current and future financial periods are shown as unliquidated obligations. Effective 1 January 2000, unliquidated obligations for the escrow account for humanitarian activities in Iraq remain valid until completion of the project. All other obligations continue to remain valid for 12 months following the end of the biennium to which they relate;

(v) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(vi) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined benefit plan. The financial obligation of the Organization to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. As at the date of the current financial statement, the General Assembly has not invoked this provision.

**Note 3**
**United Nations escrow account established under the provisions of Security Council resolution 986 (1995) (statements I, II and III)**

(a) An escrow account to be administered by the Secretary-General was established in 1996 in order to receive the proceeds from sale of Iraqi oil as approved by Security Council resolution 986 (1995). The Security Council, in paragraph 1 of resolution 986 (1995), authorized States to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not

exceeding a total of $1 billion every 90 days. In paragraph 3 the Security Council stated that the resolution shall remain in force for 180 days.

(b) The authorization given by paragraph 2 of resolution 986 (1995) permitted Turkey to import petroleum and petroleum products originating in Iraq, sufficient to meet the pipeline tariff charges for the transport of these products through the Kirkuk-Yumurtalik pipeline in Turkey, after deduction of 30 per cent to the Compensation Fund. Resolution 1330 (2000) revised this deduction to 25 per cent. Due to the cessation of the "Oil-for-Food Programme" (the programme), pipeline tariff charges are no longer incurred.

(c) The provisions of resolution 986 (1995), which authorized sales of Iraqi oil not exceeding a total of $1 billion every 90 days, remained in force by resolutions 1111 (1997), 1129 (1997), 1143 (1997) and 1158 (1998) until 30 May 1998.

(d) The Security Council, in paragraphs 1 and 2 of resolution 1153 (1998), which took effect on 1 June 1998, decided that the authorization given to States by paragraph 1 of resolution 986 (1995) shall permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of $5.256 billion, in the 180-day mandate period referred to in paragraph 1 of resolution 1153 (1998). This provision of resolution 1153 (1998) remained in force by Council resolutions 1210 (1998), 1242 (1999) and 1284 (1999).

(e) By its resolution 1284 (1999) of 17 December 1999 the Security Council lifted the dollar cap and authorized sales of Iraqi oil of any volume during the 180-day mandate period. This resolution remained in force by Council resolutions 1302 (2000), 1330 (2000), 1352 (2001), which extended resolution 1330 (2000) for 30 days, 1360 (2001), 1382 (2001), 1409 (2002), 1443 (2002), which extended 1409 (2002) until 4 December 2002, and 1447 (2002), which extended the mandate to 3 June 2003. The final sale of oil under the programme was for shipments made on 20 March 2003.

(f) The Security Council, in paragraphs 1 and 3 of its resolution 1175 (1998), authorized States to permit the export to Iraq of the necessary parts and equipment ("spare parts") to enable Iraq to increase the export of petroleum and petroleum products, in quantities sufficient to produce the sum established in paragraph 2 of resolution 1153 (1998). The resolution stated that the funds in the escrow account pursuant to resolution 1153 (1998) up to $300 million may be used to meet any reasonable expenses, other than expenses payable in Iraq, which follow directly from contracts approved by the Committee established by resolution 661 (1990). Resolutions 1293 (2000) and 1302 (2000) established that up to $600 million may be authorized to permit States to export to Iraq the necessary parts and equipment to enable Iraq to increase the export of petroleum and petroleum products. Resolutions 1330 (2000), 1352 (2001), 1360 (2001), 1382 (2001), 1409 (2002) and 1447 (2002) retain the $600 million limit.

(g) Resolution 1330 (2000) allowed for funds up to $600 million from the escrow account to be used for the installation, maintenance, and training services of spare parts and equipment relating to the oil industry.

(h) The Security Council, in its resolution 1472 (2003), recognized that in view of the exceptional circumstances prevailing in Iraq, on an interim and

exceptional basis, technical and temporary adjustments should be made to the programme, and authorized the Secretary-General to make such changes for a period of 45 days.

(i) The Security Council, in its resolution 1476 (2003), decided that the provisions contained in paragraph 4 of resolution 1472 (2003) remain in force until 1 June 2003 and might be subject to further renewal by the Council.

(j) The Security Council, in its resolution 1483 (2003), requested the Secretary-General to terminate the programme within six months, and to transfer responsibility for the administration of any remaining activity to the Coalition Provisional Authority (the Authority). The Council also requested the consolidation of the accounts established pursuant to paragraphs 8 (a) "15 Governorates of Central and Southern Iraq" and 8 (b) "3 Governorates of Northern Iraq" of resolution 986 (1995).

(k) Sale of Iraqi oil is recognized as revenue in the fund for humanitarian activities in Iraq based on the bill of lading date and the total value of oil loaded as stipulated in the commercial invoice issued by the State Oil Marketing Organization. The proceeds from sale of Iraqi oil are allocated, upon receipt of deposits, to other accounts established pursuant to paragraph 8 of resolution 986 (1995). No oil sales were recorded after 20 March 2003.

(l) The funds from the sale of Iraqi oil pursuant to the authorization given by paragraph 1 of resolution 986 (1995) are to be used to meet the humanitarian needs of the Iraqi people and for the other purposes in paragraph 8 of resolution 986 (1995). In its resolution 1409 (2002), the Security Council permits the sale or supply of any commodities or products other than those referred to in paragraph 24 of resolution 687 (1991) as it relates to military commodities and products or military-related commodities, or products covered by the Goods Review List (S/2002/515) and its amendments as resolution 1454 (2002). The percentages used in allocating the oil sale proceeds were determined as follows:

(i) 53.034 per cent to finance the export to Iraq of medicine, health supplies, food and materials and supplies for essential civilian needs. Pursuant to resolution 1302 (2000) this was increased to 54.034 per cent and by resolution 1330 (2000) further increased to 59.034 per cent, less the payment referred to in paragraph (vi) below;

(ii) 13.0 per cent to complement the distribution by the Government of Iraq of goods imported by providing funds to the United Nations inter-agency humanitarian programme operating in the three northern governorates of Iraq, Arbil, Dihuok and Sulaimaniyeh;

(iii) 2.215 per cent to meet the operational and administrative costs of the United Nations;

(iv) 30.0 per cent allocated to the Compensation Fund established by the Security Council in its resolution 705 (1991). Pursuant to resolution 1330 (2000) this was decreased to 25.0 per cent;

(v) 0.751 per cent allocated to the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) established by the Security Council in its resolution 1284 (1999), which replaced the Special Commissions established by Security Council resolution 687 (1991) to meet operating costs.

(vi) A maximum of $10 million every 90 day period to be allocated to the escrow account established by the Security Council in its resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992). In resolution 1284 (1999) the Council suspended payments to this escrow account for an initial period of six months from 17 December 1999. In resolution 1302 (2000) the Council extended this suspension for a further 180-day period and transferred the allocation of (i) above. In resolution 1330 (2000) the Council reinstated the allocation of a maximum of $10 million every 90 days from 6 December 2000.

(m) Notwithstanding the periods for the sale of Iraqi oil as authorized by Security Council resolutions, financial statements I, II and III (United Nations Escrow Account) are prepared every six months.

(n) Included in financial statements I, II and III (United Nations Escrow Accounts) are details relating to the humanitarian activities, related operational and administrative costs, and pipeline tariff charges, that are undertaken under the provisions of Security Council resolution 986 (1995). From the beginning of the programme in December 1996 to mid-2000, implementation costs on actual expenditures incurred by agencies for activities associated with the purchase of humanitarian goods for northern Iraq were charged to the "Humanitarian activities in Iraq" account, and programme support costs on actual expenditures for the administrative and operational costs were charged to the "Administrative and operational costs" account. In mid-2000, following recommendations of the Board of Auditors, and taking into account the increased level of funds available in the "Administrative and operational costs" account, the Secretariat decided to prospectively charge all implementation and programme support costs to the "Administrative and operational costs" account. In mid-2002, the Secretariat reverted to the earlier treatment, whereby direct costs of implementing the programme in northern Iraq were charged to the "Humanitarian activities in Iraq" account. This decision reflected the need to harmonize treatment whether the work was done by the agency itself or contracted out. In 2003, when agencies began implementing various aspects of the programme in southern/central Iraq, these implementation costs were also charged to the "Humanitarian activities in Iraq" account, in line with the 2002 decision.

(o) The financial statements of the Compensation Fund, as referenced in paragraph (I) (iv) above, are reported on in a separate volume of the United Nations financial statements.

(p) Expenditure incurred during the biennium 2004-2005 for humanitarian supplies and spare parts relate to adjustments and reinstatements of contracts entered into in previous years.

**Note 4**
**United Nations Escrow Account established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992) and 1284 (1999) (statements I, II and III)**

(a) Included in financial statements I, II and III are the escrow accounts established by the Security Council in resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992), and the Special Account established by the Council in resolutions 687 (1991), 706 (1991) and

1284 (1999). These accounts were previously included in a separate volume. All comparative figures have been restated. The escrow account established under Security Council resolutions 706 (1991), 712 (1991) and 778 (1992) returned all funds in 2003. As a result, there are no further transactions to report relating to this escrow account.

(b) The escrow account administered by the Secretary-General under Security Council resolutions 706 (1991) and 712 (1991) provided for Iraqi funds from the sale of oil to be used for payment by the United Nations Compensation Commission, the full costs of carrying out the tasks authorized by section C of resolution 687 (1991), the full costs incurred by the United Nations in facilitating the return of all Kuwaiti property seized by Iraq, half the costs of the Boundary Commission, and the cost to the United Nations of implementing resolution 706 (1991), and of other necessary humanitarian activities in Iraq.

(i) With the refusal of Iraq to sell oil under the provisions of Security Council resolutions 706 (1991) and 712 (1991), the Security Council on 2 October 1992 adopted resolution 778 (1992) as an alternative means of providing funds for the purposes specified. Member States in which there were petroleum products owned by Iraq or Member States with funds of the Government of Iraq representing the proceeds of petroleum sales, paid for by the purchaser after 6 August 1990, were required to transfer some or all of these funds to the escrow account. Additionally, in resolution 778 (1992) the Council urged Member States to contribute funds from other sources to the escrow account. All such funds transferred or contributed to the escrow account under the provisions of resolution 778 (1992) were to be transferred back to the accounts of States from which funds were provided, together with applicable interest, at such time when oil exports have taken place pursuant to the system provided in resolutions 706 (1991) and 712 (1991) and the escrow account has received funds from the proceeds of sale. Iraqi oil exports began in December 1996 and in January 1997 the escrow account started receiving funds from the proceeds of sales that were transferred back to the accounts of States that provided the original funds to the escrow account.

(ii) In December 1999, pursuant to Security Council resolution 1284 (1999), payment to the escrow account from the proceeds of sales was suspended. The suspension, which was extended an additional 180 days by the Security Council in resolution 1302 (2000), was lifted by the Security Council in resolution 1330 (2000) in December 2000.

(iii) In May 2003 the Security Council in resolution 1483 (2003) requested the Secretary-General to restore funds that were provided by Member States pursuant to resolution 778 (1992). All such funds were returned in June 2003.

(c) The Security Council in resolution 687 (1991) requested the Secretary-General to undertake certain tasks in connection with the situation between Iraq and Kuwait. The costs of those activities were to be considered as an advance pending the receipt of payments to the Organization by Iraq in respect of certain activities, and by Iraq and Kuwait jointly in respect of the costs of the Boundary Commission.

(i) With the adoption by the Security Council of resolution 778 (1992), the above-mentioned costs have been covered by transfers from the escrow

account. Furthermore, the costs of the Special Commission are met by transfer from the escrow account pursuant to Security Council resolution 986 (1995);

(ii) The Security Council decided by resolution 1284 (1999) to establish the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC). The responsibilities mandated to the Special Commission are undertaken by UNMOVIC;

(iii) The Security Council in resolutions 1483 (2003) and 1546 (2004) reaffirmed the Council's intention to revisit the mandate of UNMOVIC.

**Note 5**
**Independent Inquiry Committee into the United Nations Oil-for-Food Programme expenditure**

The Security Council in its resolution 1538 (2004) welcomed the Secretary-General's appointment of an independent high-level inquiry to investigate allegations concerning the United Nations Oil-for-Food Programme. Costs of the Committee are met from funds for administrative and operational costs of the programme. Expenditures during the biennium 2004-2005 ending 31 December 2005 were:

(Thousands of United States dollars)

| | |
|---|---|
| Salaries | 14 470.1 |
| Consulting fees | 15 277.6 |
| Travel | 3 225.6 |
| Audit fees | 98.4 |
| Communication | 280.0 |
| Premises | 1 182.1 |
| Equipment | 1 143.6 |
| Miscellaneous supplies and services | 176.5 |
| **Total** | **35 853.9** |

**Note 6**
**Reimbursement of implementation costs by agencies**

As a result of findings of the Independent Inquiry Committee into the United Nations Oil-for-Food Programme, some agencies were asked to return certain implementation costs paid to them in excess of their respective direct and indirect actual costs. As at 31 December 2005, $40,560,579 has been recorded in miscellaneous income under the "Humanitarian activities in Iraq" account, of which $40,342,668 had been received, and $217,911 was outstanding.

**Note 7**
**Operating reserves**

**"Humanitarian activities in Iraq" account**

An operating reserve of $159,971,000 was established during the six-month period ended 30 June 2005 under the "Humanitarian activities in Iraq" account. The reserve is to assure that sufficient funds are available for the satisfactory resolution of all remaining issues relating to outstanding letters of credit. With the reduction in outstanding letters of credit, the operating reserve was reduced to $126,660,000 as of 31 December 2005.

**"Administrative and operational costs" account**

An operating reserve of $48.0 million was established during the 12-month period ended 31 December 2004 under the "Administrative and operational costs" account. The reserve was to meet compensation costs payable in respect of those Oil-for-Food Programme staff members who were injured or killed as a result of the bombing of the United Nations headquarters building in Baghdad on 19 August 2003, as well as to set aside funds to meet the expected costs of the Independent Inquiry Committee and the administrative costs of the escrow accounts until all aspects of the programme are completed. During the period from 1 January 2005 to 31 December 2005, an amount of $37,242,808 was disbursed to meet these costs, including full settlement of all costs related to the Baghdad bombing of 19 August 2003. An additional reserve was established for $10,375,000, thereby resulting in an operating reserve of $21,132,192 as at 31 December 2005. This reserve is to meet future costs chargeable to the "Administrative and operational costs" account, including those relating to Independent Inquiry Committee and administrative costs.

**Note 8**
**Non-expendable property**

In accordance with United Nations accounting policies, non-expendable property is charged against the current allotment in the year of purchase. The non-expendable property valued at historical cost, according to the cumulative inventory records, is:

(Thousands of United States dollars)

| | 2005 | 2004 |
|---|---|---|
| United Nations Office of the Humanitarian Coordinator for Iraq | | 3 082.4 |
| UNMOVIC[a] | 11 242.0 | 1 112.0 |
| Agencies[a] | 4 569.9 | 15 117.3 |
| Office of the Iraq Programme | | 536.8 |
| Independent Inquiry Committee | 1 021.9 | |

[a] Due to the current situation in Iraq, it is not possible to fully ascertain the value of non-expendable property in Iraq as at 31 December 2005.

**Note 9**
**Liabilities for end-of-service benefits**

(a) Staff members who separate from the Organization are entitled to be paid for any unused vacation days they may have accrued up to a maximum of 60 days. The Organization's total liability for such unpaid accrued vacation compensation for staff working in the various activities related to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), and 1483 (2003) as of 31 December 2005 is estimated at $1.1 million.

(b) Some staff members are entitled to repatriation grant and related expenditures of relocation upon their separation from the Organization based on the number of years of service. The Organization's total liability for such unpaid repatriation and relocation entitlement for staff working in the various activities related to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), and 1483 (2003) as of 31 December 2005 is estimated at $0.9 million.

**Note 10**
**Future modus operandi of United Nations Escrow Account established under Security Council resolution 986 (1995)**

(a) The Security Council in resolution 1483 (2003) extended the Secretary-General's responsibilities under Council resolutions 1472 (2003) and 1476 (2003) for a period of six months. The Council requested the Secretary-General to terminate, in the most cost-effective manner, the ongoing operations of the programme at Headquarters and in the field by 21 November 2003, and to transfer responsibility for the administration of any remaining activity under the programme to the Authority.

(b) Accordingly, in the three Governorates of northern Iraq where the United Nations agencies were implementing the programme, contracts entered into by the agencies were transferred to the Authority. Similarly, in the 15 Governorates of central and southern Iraq, where, after the outbreak of hostilities agencies had been assigned responsibility for procurement activities previously undertaken by the Government of Iraq, uncompleted contracts were handed over to the Authority.

(c) The Security Council in resolution 1546 (2004) decided that in connection with the dissolution of the Authority, the Interim Government of Iraq and its successors shall assume the rights, responsibilities and obligations relating to the programme that were transferred to the Authority, including all operational responsibility for the programme and any obligations undertaken by the Authority in connection with such responsibility, and responsibility for ensuring independently authenticated confirmation that goods have been delivered, and further decided that following a 120-day transition period from the date of adoption of the resolution, the Interim Government of Iraq and its successors shall assume all responsibility for certifying delivery of goods under previously prioritized contracts, and that such certification shall be deemed to constitute the independent authentication required for the release of funds associated with such contracts, consulting as appropriate to ensure the smooth implementation of those arrangements.

(d) As of 31 December 2005, the liquidation of the programme continued. All obligations relating to contracts that had not been prioritized in accordance with

Security Council resolution 1483 (2003) were closed, except for those where letters of credit had not lapsed. Obligations relating to contracts that had been prioritized remain as liabilities of the programme, and the related letters of credit have not been closed. The expiry dates for the letters of credit extend until 2007. In his letters dated 8 August 2005, 17 October 2005 and 19 December 2005, the Secretary-General kept the Security Council informed of the arrangements for the liquidation of the outstanding letters of credit, and of the progress being made. The Security Council has taken note of the matter.

(e) Since the adoption of Security Council resolution 1483 (2003), a total amount of $10.040 billion has been transferred to the Development Fund for Iraq up to 31 December 2005, with $4.440 billion being transferred during the biennium 2004-2005. The remaining surplus funds will be returned to the Development Fund for Iraq in accordance with the provisions of paragraph 17 of Security Council resolution 1483 (2003).

**Note 11**
**Contingent liabilities**

In accordance with Security Council resolution 1483 (2003), as part of the liquidation process, all claims and disputes involving the United Nations or its agencies with third parties, in carrying out the activities of the programme are to be transferred to, and become the responsibility of, the Authority. There may be some circumstances in which such a transfer is not possible and any liability and related fees will need to be met by the programme. The amount is estimated at $5 million.

**Note 12**
**Investigation by the Independent Inquiry Committee**

In April 2004, the Secretary-General appointed a high-level, Independent Inquiry Committee to investigate the administration and management of the Oil-for-Food Programme from its inception to its transfer to the Coalition Provincial Authority, including allegations of fraud and corruption on the part of United Nations officials, personnel and agents as well as contractors, including entities that have entered into contracts with the United Nations or with Iraq under the programme. Following this, the Security Council adopted resolution 1538 (2004), in which it welcomed the inquiry. The Committee completed its investigation and issued its final report on 27 October 2005.

The Committee recognized that the programme was unique to the United Nations in many aspects, namely its sheer size, scope and political and geographic complexities. The Committee concluded that, inter alia, the former Government of Iraq had manipulated the programme to dispense contracts on the basis of political preference and to derive illicit payments from companies; that there were shortcomings in the United Nations procurement, management and programme implementation areas; that audit and oversight mechanisms in the United Nations needed to be strengthened; and that the former Executive Director of the programme "corruptly benefited" from it. On the other hand, the Committee had positive findings relating to controls and procedures applied with respect to the account for "Administrative and operational costs" and treasury operations.

The Committee made recommendations related to the United Nations and to the programme, and the Secretariat is taking appropriate action accordingly.